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Supreme Court of the United States

October Term, 1973

No. 73-1287

THE REPUBLIC OF CUBA, *et al.*,

Interventor-Petitioners,

—*against*—

SAKS & COMPANY,

Defendant-Respondent.

THE REPUBLIC OF CUBA, *et al.*,

Interventor-Petitioners,

—*against*—

FABER, COE & GREGG, INC.,

Defendant-Respondent.

THE REPUBLIC OF CUBA, *et al.*,

Interventor-Petitioners,

—*against*—

ALFRED DUNHILL OF LONDON, INC.,

Defendant-Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

VICTOR RABINOWITZ
LEONARD B. BOUDIN
Attorneys for Petitioners
30 East 42nd Street
New York, New York 10017

Dorian Bowman
Herbert Jordan
On the Brief

February 20, 1974

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Supreme Court of the United States

October Term, 1973

No.

THE REPUBLIC OF CUBA and DANIEL SOLANO PINERA, as Interventor of MENENDEZ, GARCIA Y COMPANIA, LIMITADA and MENENDEZ, GARCIA Y CIA, LTDA. and MENENDEZ Y GARCIA,

Interventor-Petitioners,

—against—

ALONSO MENENDEZ, JOSE M. GARCIA, BENJAMIN MENENDEZ, JOSE MENENDEZ and ADOLFO GARCIA, co-partners, doing business under the firm name and style of MENENDEZ, GARCIA Y COMPANIA, LIMITADA and MENENDEZ, GARCIA Y CIA, LTDA. and MENENDEZ Y GARCIA,

Owner-Respondents,

—against—

SAKS & COMPANY,

Defendant-Respondent.

THE REPUBLIC OF CUBA and DANIEL SOLANO PINERA, as Interventor of MENENDEZ, GARCIA Y COMPANIA, LIMITADA; F. PALICIO Y COMPANIA, S.A.; CIFUENTES Y COMPANIA and POR LARRANAGA, FABRICA DE TABACOS, S.A.,

Interventor-Petitioners,

—against—

RAFAEL CIFUENTES, RAMON CIFUENTES and MANUEL CIFUENTES, co-partners, doing business under the firm name and style of CIFUENTES Y COMPANIA; ALONSO MENENDEZ, JOSE M. GARCIA, BENJAMIN MENENDEZ,

JOSE MENENDEZ and ADOLFO GARCIA, co-partners, doing business under the firm name and style of MENENDEZ, GARCIA Y COMPANIA, LIMITADA; POR LARRANAGA, FABRICA DE TABACOS, S.A.; and F. PALICIO Y COMPANIA, S.A.,

Owner Respondents,

—against—

FABER, COE & GREGG, INC.,

Defendant-Respondent.

THE REPUBLIC OF CUBA and DANIEL SOLANO PINERA, as Interventor of MENENDEZ, GARCIA Y COMPANIA, LIMITADA; F. PALICIO Y COMPANIA, S.A.; CIFUENTES Y COMPANIA and POR LARRANAGA, FABRICA DE TABACOS, S.A.,

Interventor-Petitioners,

—against—

RAFAEL CIFUENTES, RAMON CIFUENTES and MANUEL CIFUENTES, co-partners, doing business under the firm name and style of CIFUENTES Y COMPANIA; ALONSO MENENDEZ, JOSE M. GARCIA, BENJAMIN MENENDEZ, JOSE MENENDEZ and ADOLFO GARCIA, co-partners, doing business under the firm name and style of MENENDEZ, GARCIA Y COMPANIA, LIMITADA; POR LARRANAGA, FABRICA DE TABACOS, S.A.,; and F. PALICIO Y COMPANIA, S.A.,

Owner-Respondents,

—against—

ALFRED DUNHILL OF LONDON, INC.,

Defendant-Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

The Republic of Cuba and Daniel Solano Pinera as Interventors, respectfully pray that writs of certiorari issue to review three judgments of the United States Court of Appeals for the Second Circuit entered in the above entitled actions on September 24, 1973, affirming two of the judgments of the District Court for the Southern District of New York and affirming in part and reversing in part the third. Pursuant to Rule 23, subd. 5 of the Rules of this Court, a single petition is filed to review all three of the above captioned cases since they involve identical or related questions, and were consolidated in the courts below.

Opinions Below

The Court of Appeals wrote an opinion, reported at 485 F.2d 1355 (1973) and printed herein at App. 1a-38a.[1] The District Court wrote an opinion, reported at 345 F.Supp. 527 (1972) and printed herein at App. 41a-74a.

Jurisdiction

The judgment of the Court of Appeals was entered on September 24, 1973. An application for rehearing (undated) was made by defendant Dunhill only, in *Cifuentes* v. *Dunhill*. That petition was denied on November 14, 1973. By order dated December 11, 1973 this Court extended the time within which petitioners might file a petition for writs of certiorari to February 21, 1974. The jurisdiction of this Court is invoked under 28 U.S.C. §1254(1).

Questions Presented

1. Is the rule enunciated by this Court in *First National City*

1. References are to the Appendix being filed as a Joint Appendix by the several petitioners in this litigation.

Bank v. *Banco Nacional*, 406 U.S. 759, applicable to a situation in which (a) there is no State Department letter advising this Court that the Executive Branch believes that the interest of the United States do not require application of the act of state doctrine (i.e., a "Bernstein letter"), and (b) there has been no violation of international law?

2. Did the courts below err in refusing to give effect to the Cuban Currency Control Regulations which provided that, upon the export of Cuban products, the Cuban exporter is required to turn over to the Cuban Government the foreign currency he receives in return for Cuban pesos?

3. Was the nationalization by the Cuban Government of cigar factories owned by its nationals effective as to debts owed by United States importers to such factories?

4. When a court finds no past or threatened injury to the plaintiff in a suit for trademark infringement, may it declare the marks valid and infringed?

5. May suit for trademark infringement be maintained by a trademark registrant who no longer has access to the essential and irreplaceable ingredients of the product described by the mark?

Statement of the Case

These cases are essentially litigations between three groups of parties. The plaintiffs are Cuban business entities, formerly owners of tobacco plantations and cigar factories in the Republic of Cuba. They are collectively referred to herein as the "owners" or "respondent-owners". The defendants are companies engaged in the importation of cigars into the United States. They are collectively referred to herein as the "importers" or the "respondent-importers". The third group of parties are the Republic of Cuba and the "interventor" designated by the Cuban Government to manage the cigar factories when they were

nationized. They are referred to herein as the "interventors" or the "petitioners".

The facts as set forth in the opinions both of the Court of Appeals (App. 3a-10a) and in the opinion of the District Court (App. 41a-45a) are accepted by the petitioners except as may be noted herein.

The Opinions of the Courts Below

There was no dispute as to the liability of the importers to the interventors as to post-intervention shipments and as to the amounts thereof, and judgments in favor of the interventors and against the importers for the amounts due on that account were directed, less set-offs and counterclaims. As to the pre-intervention shipments of about $477,000, the District Court held that the owners were entitled to payment from the importers. That court further held that the importers had made payments to the interventors for such shipments under a mistake and were entitled to recover the same from the interventors.

Judgments were entered in favor of the owners and against the importers Saks and Co. and Faber, Coe & Gregg, Inc. for the amount of such pre-intervention shipments, and said importers were allowed an equivalent amount as an offset against the interventors' judgment against them. In both cases there was a net balance in favor of the interventors against the importers.

The set off claimed by the third importer, Dunhill, however, was greater than the amount it owned to the interventors by about $54,000. Accordingly, the District Court entered affirmative judgment in favor of Dunhill against the interventors in that amount (App. 41a). The courts found interest due on all of the sums as to which judgment was entered.

On the trademark issue, the District Court declared that the owners' trademarks were valid as of February 1961 and that those marks had then been infringed; however it found no damages and

no threat of future infringement and denied monetary or injunctive relief.

The Court of Appeals affirmed the District Court in all respects except as to the affirmative judgment in favor of Dunhill. As to that the Court of Appeals reversed (App. 31a, 38a).

Reasons Relied on for Allowance of the Writ

1. The Court of Appeals recognized that the petitioners' repudiation of the obligation for money it had received and allegedly owed to the importers was an act of state within the decision of this Court in *Banco Nacional* v. *Sabbatino*, 376 U.S. 398, 421-434, and that the obligations so repudiated arose in Cuba (App. 22a-28a). From this, the court below should have concluded "that the act of state doctrine must preclude the importers from enforcing their counterclaims against the interventors." (App. 28a) This conclusion was *not* reached because the Court of Appeals misunderstood and erroneously applied this Court's decision in *First National City Bank* v. *Banco Nacional de Cuba*, 406 U.S. 759. The court below held that the *Sabbatino* rule was not a defense to the claims made by the importers against petitioners insofar as said claims were counterclaims.

While the grounds for this Court's decision in the *City Bank* case were not crystal clear, certainly that case does not stand for the proposition for which it was cited by the court below. In *City Bank*, four members of this Court held that the act of state doctrine was applicable (406 U.S. at 776). Three more justices, speaking through Mr. Justice Rehnquist, held that the act of state doctrine as enunciated in *Banco Nacional* v. *Sabbatino*, 376 U.S. 398, was not applicable because the claim by *City Bank* was a counterclaim and because there was a letter from the State Department advising this Court that the Executive Branch believed that the interests of the United States did not, in the circumstances of that case, require application of the act of stqte doctrine (i.e., a "Bernstein letter"). (406 U.S. at 760.) But here there is no Bernstein letter and hence the opinion by Mr. Justice

Rehnquist does not help the importers.[2] Mr. Justice Powell opted for a case-by-case analysis of the act of state doctrine (406 U.S. at 773) and there is no way of predicting from this opinion, how he would have voted on the facts in this case. Only the opinion by Mr. Justice Douglas, who held the Bernstein letter irrelevant to his decision (406 U.S. at 770) gives any support to the conclusion reached by the court below, that the *Sabbatino* rule does not govern this case.

And even the opinion of Mr. Justice Douglas is not decisive. The application *vel non* of the act of state doctrine does not automatically result in a decision in favor of one party or another. The act of state doctrine as set forth in *Sabbatino* merely teaches that the courts will refrain from passing on the act of a foreign state; neither that decision nor the *City Bank* case teaches us anything about what decision should be made if the act of state doctrine is for some reason, not applicable. In such event a court must proceed "to determine the issue and resolve [the] litigation on the merits." (White, J., dissenting in *Sabbatino*, at 376 U.S. at 472). See also *First National City Bank* v. *Banco National*, 406 U.S. at 762 (Rehnquist, J.); and at 776 (Powell, J.).

So, if *Sabbatino* is not to be applied here, the court must next proceed to "decide the case without the limitations that would otherwise be imposed upon it by the judicially created act of state doctrine" (Rehnquist, J. in *City Bank* at 460 U.S. 768), and "to determine and apply the applicable international law" (Powell, J., in *City Bank*, 406 U.S. at 776) to the act of the government of Cuba under consideration. That act was the repudiation of a commercial debt, and the Court of Appeals admitted that "such a repudiation does not appear to have ever been recognized as a

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2. The Stevenson letter in the *City Bank* case does not help the importers here. That letter was narrowly and specifically confined to the "circumstances" of that case. Certainly the repudiation of a commercial debt is not comparable to the circumstances of the *City Bank* case, where the property of the bank was nationalized in a manner which the Court of Appeals later found to be a violation of international law. *Banco Nacional* v. *First National City Bank*, 431 F.2d 394 (2nd Cir. 1970).

violation of international law." (App 23a) Accordingly the counterclaims of the importers should have been dismissed whether or not the act of state doctrine, was applicable thereto.

2. The effect of the decision below is to compensate the owners in dollars for the cigars they shipped to the United States. But under the Cuban Currency Control Regulations they were not entitled to receive dollars for those cigars; they were entitled to receive only pesos.

The Cuban Currency Regulations in effect during the period covered by this complaint, provided that when a Cuban exporter received payment in foreign currency, it was "required to deliver to the Currency Stabilization Fund, to be exchanged at par for national currency, the dollars representing the price of such exportations. . .within three days following the date of collection thereof." Par. First, Instruction No. 11 of November 3, 1959. The owners, of course, understood when they sold their products that they would be governed by the regulations; they had been operating pursuant to its terms for almost two years, and hence entered into the contracts in question with the expectation and intent that they would get pesos, not dollars.

There is nothing in these regulations repugnant to the public policy of the United States; on the contrary, the regulations are typical of similar regulations all over the world. The United States Foreign Claims Settlement Commission, describing currency controls generally, has stated:

> "Exchange controls usually follow a general pattern whereby residents, nationals as well as non-nationals, must surrender their foreign exchange, gold and foreign securities; foreign currency must not be exported and domestic must not be exported or imported; nonresident creditors cannot have the sum owed transferred, irrespective of the currency involved; and rates for foreign exchange and gold are fixed by government decree." *Tabar Claim, U.S. Foreign Claims Settlement Comm'n, Report of Settlement of Claims*, 1949-1955, 22 at 35.

See also *Matter of Heddy Brecher-Wolff*, Docket No. 1698 (1955, Office of Alien Property, Department of Justice); Gold, *The Fund Agreements in the Courts* (1952), pp. 78-79. Also, *Perutz* v. *Bohemian Discount*, 304 N.Y. 533 (1953); *Werfel* v. *Zivnostenska Banka*, 260 App. Div. 747 (1st Dept. 1940), *rev'd on other grounds*, 287 N.Y. 91 (1941); *In re Helbert Wagg & Co.* [1956] 1 All E.R. 129; *Kahler* v. *The Midland Bank, Ltd.*, [1949] 2 All E.R. 621; *French v. Banco Nacional*, 23 N.Y. 2d 46, 64 (1968).

As the court below pointed out (App 16a) the Breton Woods Agreement included a commitment on the part of signatory nations to enforce each others' exchange controls. Cuba is not now a participating member in that agreement, although it was at the time this controversy first arose. Whatever may be the legal obligations which arise from that agreement it is clear that the enforcement, in the courts of the United States, of the currency control regulations of a foreign country is not so abhorrent to our public policy as to justify a court's refusal to enforce those regulations on policy grounds.

It is no answer to say that currency control regulations are "revenue statutes" and that revenue statutes are not given "extraterritorial effect" (App. 16a). Such is clearly not the law. *In re Helbert Wagg & Co., supra; Holzer* v. *Deutsche Reichsbahn Gesellschaft*, 277 N.Y. 474 (1938).

Nor is it particularly shocking that the result will be that the owners will get only pesos, probably worthless in the United States. Every currency control regulations works an injustice to someone. In *Sardino* v. *Federal Reserve Bank*, 361 F.2d 106 (2nd Cir. 1966), *cert. den.*, 385 U.S. 898, an elderly Cuban worker was deprived of the proceeds of an insurance policy payable to him because of our currency control regulations. See also *In re Helbert Wagg & Co., supra; Holzer* v. *Deutsche Reichsbank Gesellschaft, supra*.

Further, the fact of the matter is that even if the petitioners' view of the case is correct, they too will receive nothing. Under

the Currency Control Regulations of the United States any judgment recovered in this litigation will not be transmitted to the petitioners, but will be held in frozen accounts in the United States. See *Banco Nacional* v. *First National City Bank*, 431 F.2d 394 at 403 (2nd Cir. 1970) *rev'd on other grounds*, 406 U.S. 759; *Sardino* v. *Federal Reserve Bank*, 361 F.2d 106 (2nd Cir. 1966), *cert. den.*, 385 U.S. 898.

Petitioners are entitled to prevail on this point for several reasons.

(a) This being a diversity case, the court will apply New York's choice-of-law rules. *Klaxon Company* v. *Stentor Electric Manufacturing Co.*, 313 U.S. 487. New York's choice-of-law rules are governed by *Auten* v. *Auten*, 308 N.Y. 155, 158 (1954), which holds that:

> ". . . the courts, instead of regarding as conclusive the parties' intention or the place of making or performance, lay emphasis rather upon the law of the place 'which has the most significant contacts with the matter in dispute.' [Cases cited.]"

And, in *Babcock* v. *Jackson*, 12 N.Y.2d 473 (1953), the court, in expanding the *Auten* rule, held that (at p. 481) the best practical result "may best be achieved by giving controlling effects to the law of the jurisdiction which, because of its relationship or contact with the occurrence or the parties, has the greatest concern with the specific issue raised in the litigation."

In this case Cuba had the most significant contacts with the matter in dispute and hence its law should be applied. A contrary conclusion was reached in the court below only because it treated the contracts as though they were contracts to pay money. They were not; they were contracts for the purchase and sale of cigars. The contracts were made in Cuba by the acceptance there of the order to ship cigars; they were performed in Cuba by the shipment of cigars from its ports. The parties who are in reality disputing

the right to the payments in question are all Cubans, none of them ever being resident in the state. The State of New York has no significant connection with the litigation except that it happens to be the forum in which the action was brought because the stakeholder resides here. It is hard to see how either the State of New York or any of its citizens has any interest at all in the outcome of this litigation or, indeed, any relationship at all with the specific issue raised.

The court below makes much of the fact that payment was to be made in dollars in the United States, in that the importers paid their debts to Cuba through United States banks and that the owners never received dollars while they were within the physical control of Cuba. (App. 14a, 15a) But this is to elevate form above substance. Ever since 1948, the law of Cuba has provided that obligations payable in Cuba must be paid in pesos, not dollars, Cuban Law 13, December 23, 1948, and that was exactly the purpose and effect of the currency control regulations under consideration.

(b) The decision below materially changed the terms of the agreement between the parties. The owners, who expected pesos, got dollars and hence reaped a windfall. The petitioner Republic of Cuba, which was entitled to dollars gets nothing at all and hence suffers a forfeiture.

The purpose of a damage award in a contract action is to make good the loss of an injured party, and not to effect either a windfall or a forfeiture. *United Protective Workers* v. *Ford Co.*, 223 F.2d 49 (7th Cir. 1955); *Western Oil and Fuel Co.* v. *Kemp*, 245 F.2d 633 (8th Cir. 1957). In *Bowes* v. *Saks & Co.*, 397 F.2d 113, 119 (7th Cir. 1968), the court said:

> ". . . Contract damages are supposed to compensate a loss and not provide a windfall."

As the court said in *Blair* v. *United States*, 150 F.2d 676, 678 (8th Cir. 1945):

". . . A party whose contract has been breached is not entitled to be placed in a better position because of the breach than he would have been in had the contract been performed."

See also *Glidden Co.* v. *Hellenic Lines*, Ltd., 207 F.Supp. 262 (S.D.N.Y. 1962), *aff'd*, 315 F.2d 162 (2nd Cir. 1963).

This Court has frequently decided that currency control regulations will be enforced as to pending contractual obligations even if enacted after creation of the obligation, *Norman* v. *Baltimore & Ohio R.R.*, 294 U.S. 240, and even though a substantial loss occurs. See *Rex* v. *International Trustee for the Protection of Bondholders* [1937] 2 All E.R. 164. Here the contractual obligation was entered into *after* the currency control regulations were enacted and were within the contemplation of the parties.

It is an over-simplification of the economic facts of life to regard a contract like this simply as a bilateral agreement between the purchaser and the seller of cigars. In this case, as well as in very many similar cases, there is a third party in interest, namely, the government whose products are being exported and whose economic life depends upon the receipt of hard currency in payment of these experts. The Republic of Cuba was by statute a party to this transaction and was recognized as such by the owners at all times prior to intervention. Its consideration for permitting the export of cigars in the first place was that it would receive hard currency for those cigars. To disregard the interest of the petitioner Republic of Cuba is to do violence to the facts of international trade.

3. The nationalization of tobacco factories in Cuba on September 15, 1960 was a typical act of state and cannot be challenged in our courts. Since the property was owned by Cuban nationals, no question of international law is involved, *Palicio* v. *Brush & Bloch*, 256 F.Supp. 481, aff'd 375 F.2d 1011 (2nd cir. (1967), *cert. den.*, 389 U.S. 830. The courts below did not dispute these elementary principles but held that the nationalization of physical property in Cuba did not include the debts of the importers for pre-intervention shipments. In so holding the courts relied primarily on *Republic of Iraq* v. *First National City Bank*, 353 F.2d 47 (2nd Cir. 1965), *cert. den.*, 382 U.S. 1027.

The *Republic of Iraq* case involved a bank account located in this country which, the court held, was not affected by the nationalization decrees of the Republic of Iraq. This holding has never been passed upon by this Court. In any event a bank account is quite different from an account receivable.

Nor are the facts in the *Republic of Iraq* case applicable to the facts in this case. Here the property nationalized in Cuba was a going business. Just as it had accounts receivable for cigars sold in the United States, it must be assumed that it had accounts payable for overhead expenses, payroll, fertilizer, freight, office supplies, etc. We are not dealing here with a single asset unconnected with corresponding liabilities as in *Republic of Iraq*; we are dealing here with the nationalization of a business whose creditors looked to the interventors for payment whether those credits arose before or after intervention. So interventors had a right to look to their debtors for payment whether such debts arose before or after intervention. Put another way, the payments in question are not net credits, owing to the former owners; they are credits less liabilities which the former owners are leaving behind them. The accounts receivable were not the personal property of the owners anymore than they were the personal property of the interventors. They were assets of a going business regardless of ownership.

In *Sabbatino* this Court noted, beginning at page 428, the undesirable consequences of requiring a United States court to pass on the validity of a foreign decree. Those consequences are present in this case as much as they were in *Sabbatino*. The *Republic of Iraq* case is an exception to the general rule and should be confined to its own facts, with particular reference to the circumstances that (a) the bank account in question in that

case was the personal property of the depositor against which there were no claims; (b) the deposit in question had been made in the United States precisely for the purpose of safeguarding it against seizure, and (c) the transaction was an isolated one having no relationship to a continuing state of affairs. None of those facts are present in this case.

4. The lower courts' treatment of the trademark claims raises fundamental constitutional questions concerning case-or-controversy limitations on the remedy of declaratoryjudgment and the dynamics of decision making by the federal judiciary.[3]

The District Court found and the Court of Appeals agreed that the owners were "unable to show that they sustained any damage. . ." (App. 70a) and that they are not entitled to an accounting because "there is no evidence of wrongful intent, harm to the public or damage to the owners arising from the infringements." (App. 72a) The court denied an injunction because "[p]lainly there is no likelihood of any violations of the owners' United States rights by the importers or the interventors in the foreseeable future." (App. 70a) Despite these findings, the lower courts declared that the owners' trademarks remained valid and enforceable and that they had been infringed.

The District Court had no power to render declaratory judgment on the issues of validity and infringement because as to them there remained no controversy within the meaning of Article III of the Constitution. *Aetna* v. *Haworth*, 300 U.S. 227. See also *North Carolina* v. *Rice*, 404 U.S.244; *Muskrat* v. *United States*, 219 U.S. 346. A federal court loses power to adjudicate an issue whenever it becomes moot, even though there may have been a justiciable controversy when the complaint was filed and throughout trial. *Golden* v. *Zwickler*, 394 U.S. 103, 108. This limitation on federal judicial power applies regardless of whether

3. For present purposes, there is no material difference between the twin claims of trademark infringement and unfair competition. (App. 33a, n.22). For simplification, only the trademark claim is hereafter referred to.

the issue is mooted by supervening events, as in the cases just cited, or by the decision-making processes of the court itself, as in the case at bar. *Cover* v. *Schwartz*, 133 F.2d 541 (2d Cir. 1942), *cert. den.* 319 U.S. 748. See also *Electrical Fittings Corp.* v. *Thomas & Betts*, 307 U.S.241.[4]

The case or controversy limitation in Article III reflects a basic limitation of our common law system of case by case adjudication in an adversary context. See, *e.g.*, *Coleman* v. *Miller*, 307 U.S. 433, 460-61 (Separate opinion of Frankfurter, J.); *California* v. *San Pablo & T.R.R. Co.*, 149 U.S. 308, 314. *Joint Anti-Fascist Refugee Committee* v. *McGrath*, 341 U.S. 123, 150-52 (Frankfurter, J., concurring). The system cannot reliably resolve moot or hypothetical questions, because such questions do not elicit from the bench and bar the high levels of concentration and performance which are required to make the system function dependably. *Joint Anti-Fascist Refugee Committee* v. *McGrath*, *supra*, at 150-51. See also *United States* v. *Fruehauf*, 365 U.S. 146, 157.

Where an issue becomes moot after trial, as in the present case, the litigants have little incentive to develop forceful (and costly) post-trial and appellate argument. Docket-laden courts cannot be expected to devote to decision-making and opinion-writing the same painstaking concentration as when they labor under the burden of deciding questions which actually affect the litigants.

The issue of infringement became moot when the court found no past damages and no likelihoods of recurrence in the foresee-

4. Contrary to the intimation of the Court of Appeals (App. 35a) the District Court's lengthy discussion of the issues of validity and infringement was not a necessary "first step" toward reaching the issue of whether there was past or threatened injury so as to present a case or controversy. The judge might well have ruled that since he found no past or threatened injury he need not and could not reach the issues of validity or infringement. He could not create the constitutionally required case or controversy by organizing his opinion so as to locate the discussion of validity and infringement ahead of the decisive issue of past or threatened injury.

able future. *S.E.C.* v. *Medical Committee*, 404 U.S. 403. *Cf. Mills* v. *Green*, 159 U.S. 651; *United States* v. *Hamburg-American Steamship Co.*, 239 U.S. 466.[5]

The question whether the owners' trademarks remained valid also became moot. Apart from the general principles of the cases just cited, this Court has specifically recognized in the analogous context of patent litigation that:

> "To hold a patent valid if it is not infringed is to decide a hypothetical case [citing *Cover* v. *Schwartz*, 133 F.2d 541 (2d Cir. 1942), *cert. den.* 319 U.S.748]." *Altvater* v. *Freeman*, 319 U.S. 359, 363.[6]

In *Cover* v. *Schwartz*, *supra*, a routine suit for patent infringement, the plaintiff alleged that its patent was valid and that the defendant had infringed it. The District Court dismissed on the ground that the patent was invalid, without reaching the issue of infringement. On appeal, the plaintiff conceded that the defendant had not infringed the patent, but neverthless urged the Court

5. The Court of Appeals sought to avoid the constitutional issue by suggesting that, despite the district court's explicit findings of a lack of past or threatened injury, there was some unidentified threat which presented a case or controversy. (App.36a), relates to an unappealed issue of whether the owners abandoned their trademarks by their actions in 1960-61. In the quoted passage the judge speculates as to what the owners might have perceived as possible future occurrences as of 1960-61. This speculation intimates nothing concerning the court's own view when deciding the instant issues twelve years later. In any event, neither this nor anything else identified by the Court of Appeals supports the existence of a reasonable expectation of recurrent infringement as required for a justiciable controversy.

6. *Accord, Electrical Fittings Corp.* v. *Thomas & Betts Co.*, 307 U.S. 241 (by implication); *Scaramucci* v. *Universal Mfg. Co.*, 359 F.2d 388 (5th Cir. 1966); *Aralac, Inc.* v. *Hat Corp. of America*, 166 F.2d 286, 295 (3d Cir. 1948); *Addressograph-Multigraph Corp.* v. *Cooper*, 156 F.2d 483, 485 (2d Cir. 1946); *Rosenthal* v. *DuPont*, 145 F.2d 571, 573 (2d Cir. 1944); *Katz* v. *Horni Signal Mfg. Corp.*, 145 F.2d 961 (2d Cir. 1944). *Accord*, with respect to trademarks, *Best & Co.* v. *Miller*, 167 F.2d 374 (2d Cir. 1948), *cert. denied* 335 U.S. 818 (by implication); *La Touraine Coffee Co.* v. *Lorraine Coffee Co.*, 157 F.2d 115, 119 n.2 (2d Cir. 1946) (Frank, J., dissenting on other grounds).

of Appeals to reverse the district judge's ruling and declare the patent valid. The Court of Appeals dismissed the appeal saying:

> "If . . . a trial court or an appellate court . . . holds against the plaintiff on either issue [validity or infringement], it may not go on to decide the other issue in his favor, since the adverse decision on one of those issues means that there is no case or controversy which justifies a decision in the plaintiff's favor on the other issue." 133 F.2d at 545.[7]

When the court below found no past or threatened injury, the issue of trademark validity became no less moot than if the court had found no infringement. The Court of Appeals failed to grasp this and attempted a cryptic distinction between "cases mooted on ther merits and the present type of case, where relief only is desired. . . ." (App. 35a n. 24). The court conceded that the District Court could moot out part of the "merits" (validity issue) by deciding in the interventors' favor on another part (infringement issue). But the court took the view that the "merits" could not be mooted by the absence of injury to the owners. This puts the cart before the horse. The historic office of the Case or Controversy Clause has been to prevent courts from reaching the merits of questions raised by plaintiffs who have not sustained

7. In cases where there is no infringement or where for other reasons judgment is in favor of the alleged infringer, a court may declare a patent or trademark invalid but has no power to declare it valid. Unlike the moot and immaterial finding of validity, the holding of invalidity is permissible as an alternative ground of support for the judgment. See *Cover* v. *Schwartz*, *supra*, at 545. See also *Rosenthal* v. *DuPont*, *supra*, at 573; *Addressograph-Multigraph Corp.* v. *Cooper*, *supra* at 485; *Wabash Corp.* v. *Ross Elect. Corp.*, 187 F.2d 577, 604 (2d Cir. 1951) (separate opinion of Frank, J.); see also table prepared by Rifkind, J. in *Zalkind* v. *Scheinman*, 80 F.Supp. 299, 304 (S.D.N.Y. 1948). In patent cases the public policy against unwarranted monopoly militates powerfully against deciding in favor of the alleged infringer without resting the judgment in part on a declaration that the patent is invalid, if it is invalid. *Sinclair & Carroll Co.* v. *Interchemical Corp.*, 325 U.S. 327, 330; *Cover* v. *Schwartz*, *supra*, at 545.

"any such injury inflicted or threatened, as will enable [them] to sue." *Massachusetts* v. *Mellon*, 262 U.S. U.S. 447, 480.

5. The decisions below that the owners retained enforceable trademark rights after intervention are contrary to basic principles of trademark law as laid down in prior decisons of this Court.

The courts below accepted the proof that tobacco grown in the renowned Vuelta Abajo region of Cuba cannot be duplicated elsewhere in the world. (App. 60a). The courts found that the trademarks in question signified, above all, that cigars bearing them were made of Vuelta Abajo tobacco (App. 66a). The courts further found that after intervention the owners could not obtain Vuelta Abajo tobacco from which to make cigars bearing their trademarks. (App. 63a). Despite these findings the courts held that the owners retained enforceable rights in the trademarks.

This facet of the decision runs afoul of two deep-rooted aspects of trademark law. First, the courts' doors are closed to trademark holders for whom it is impossible to use their marks without misleading the public. *Mulhens & Kropff, Inc.* v. *Ferd. Muehlens, Inc.*, 43 F.2d 937, 939 (2d Cir. 1930), *cert. denied*, 282 U.S. 881 (plaintiff lacked secret formula signified by trademark). This rule follows ineluctably from the policy underlying the "clean hands" doctrine.[8] The reason for protecting the holder's exclusive use of a trademark is to guard consumers and the holder against counterfeit products of uneven quality. When the trademark holder counterfeits his own trademarked product, by applying his mark to a product which lacks the genuine qualities signified by it, the reason for trademark protection disappears and the law accordingly withdraws it. *Worden & Co.* v. *California Fig Syrup Co.*, 187 U.S. 516.

It follows that when, as here and in *Mulhens & Kropff*, *supra*, events foreclose a holder from using his mark on the genuine products, the law withdraws its protection without awaiting an

8. *See* generally, *Note, The Besmirched Plaintiff and the Confused Public: Unclean Hands in Trademark Infringement*, 65 Colum. L. Rev. 109 (1965).

actual misdeed. To insist on a misdeed would debase the unclean hands doctrine which is not retaliatory but is rooted in a great principle of Equity and is reinforced by the sensible policy of ending trademark protection when the reason for it ends.[9]

Second, the decision that the owners' marks remained enforceable runs afoul of the basic principle that a trademark cannot exist "in gross," but only as an incident of specific commercial operations of its holder. *Hanover Star Milling Co.* v. *Metcalf*, 240 U.S. 403, 413-14. The owners' business operations, to which the marks were once appurtenant, are no longer connected with the owners, and the courts below should not have given effect to the naked trademarks.

CONCLUSION

A writ of certiorari should issue from this Court to review the decision and judgment of the Court of Appeals.

Respectfully submitted,

VICTOR RABINOWITZ
LEONARD B. BOUDIN
Attorneys for Petitioners
30 East 42nd Street
New York, New York 10017

Dorian Bowman
Herbert Jordan
On the Brief

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9. The Court of Appeals avoided this principle by characterizing the effect of intervention on the owners as an "interruption" which might end "during the lifetime of [the owners'] marks." (App.37a). There is nothing in the record to support this speculation. On the contrary, the record shows that the installation of a stable revolutionary economic system in Cuba permanently severed the owners from the essential ingredients of their trademarked cigars.